Impact of Foreign Direct Investment on select Economic Indicators of BRICS and WORLD: A Comparative Study

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Abstract

Numerous studies have been ventured regarding Foreign Direct Investment and its influence on various economic indicators. The objective of the paper is to study the trends in FDI, GDP and Merchandise Trade of BRICS and the World and also to examine the linkages of Foreign Direct Investment (FDI) with GDP and Merchandise Trade of BRICS and rest of the world from 1995-2015. For this the data has been collected from the official site of World Bank database from the period 1995-2015. The trends for the selected economic indicators have been plotted on the histogram and bar chart; data was tested using correlation and basic statistical methods. The results has shown increasing trends somewhere and also it showed that there is negligible relationship between FDI and GDP, while there was robust and positive relationship between FDI and Merchandise Trade. The study will be further helpful for the policy makers to come up with the framework on the issue related to FDI and other macro variables and also the advanced econometric models can be incorporated to understand the pattern and linkages in more pragmatic way.

Key words: FDI, GDP, Merchandise trade, BRICS, World

Introduction

In Today's era, Globalisation had robust impact on the economies of the world. Each and every country focuses on fostering their economic growth and development resulting in higher standard of living and reduction in poverty. Recent decades, are the evidence of rapid growth of the world economy. Capital, Labour, Technology, Investment, Legal, Political and Institutional systems, Trade and various Demographic and Socio- cultural factors are the reasons behind the growth of any of the country. However the debate is going on between the critics and supporters of FDI. Foreign Direct Investment (FDI) is defined by the Reserve Bank of India (RBI) as when a foreign company wants to establish any business operation in India which may include company under the company Act, 1956 (joint venture or wholly owned subsidiary) or set up a Liaison office or project office or a branch office of the foreign company which can undertake activities permitted under the Foreign Exchange Management Regulation, 2000 On one hand the supporters appreciate, the effects of FDI ;[1], [2],[3],[4],[5],[6] have figured out the positive impact of FDI on the GDP ; on the contrary, critics charge it with the problems related to balance of payments, allowing exploitation of resources of host countries and also exploiting their domestic markets. So, keeping in mind the entire world and if we see the world phenomena, the five economies Brazil, Russia, India, China and South Africa have emerged as one of the strongest groups as BRICS. BRICS is an acronym used for Brazil, Russia, India, China and South Africa which was coined in 2001 by Jim O'Neill of Goldman Sachs. The aim of this paper is to examine the impact of FDI on economic indicators on BRICS countries and rest of the world from the period 1996-2015. To achieve this aim, we will be studying following questions:

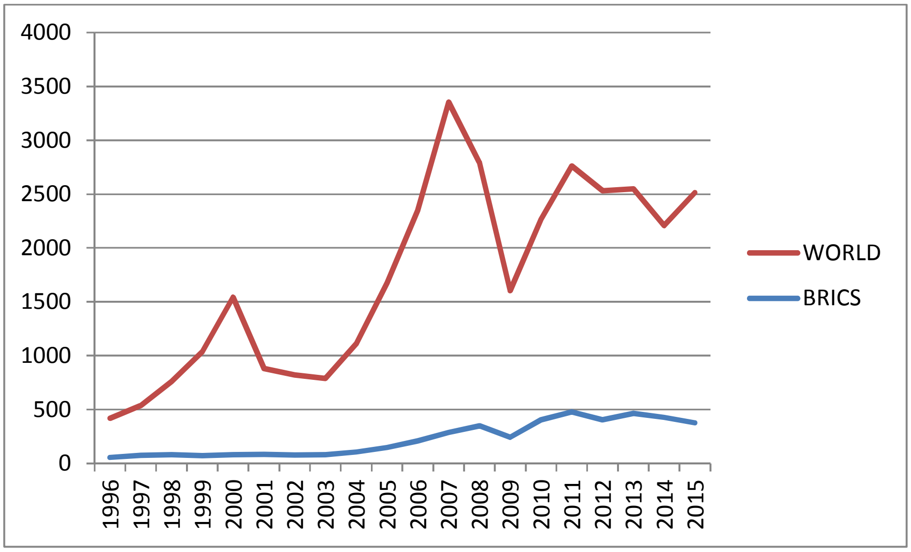
- To study the trends in FDI flow, annual GDP growth and Merchandise trade in BRICS and in world from 1996-2015.
- To study the linkages of FDI with select economic indicators to make a comparative assessment.

FDI has robust effect on the host countries [7] concluded that market size, rule of law and openness to trade play a key role in attracting FDI while availability of natural resources does not have a positive impact on FDI indicating that FDI in BRICS countries is market oriented. While [8] in their study displayed that openness to trade, size of the market and availability of infrastructure are primary factors in attracting FDI, while the role of availability of natural resources and institutional quality are of no importance.

Host government/country benefits from the level of FDI inflow, as it provides extra financial resources through taxes and investment and also generates employment opportunities and contrives inundation such as transfer of technology, skill, managerial expertise and corporate governance practices. According to [9], FDI has a positive influence not only on GDP, but also on the economic growth of the country, improving the overall productivity and more efficient use of resources. According to [10] economic growth can spur FDI, because growth –led FDI is more conspicuous than FDI-led growth. According to the author , this takes place due to increase in economic activity which further enlarge the market size which offers opportunities for foreign investors and to drive economies of scale in larger market economies. On the contrary, [11] found that the exogenous component of FDI, does not exert a strong, independent influence on growth rather sound economic policies may spur both growth and FDI. [12] Dwelled on that governments should prudently improve the business environment so that FDI can have a positive influence on the country's economic growth. On the other hand, [13] found on the employment side it can have negative impact as major part of retail sector is unorganized and as a result of FDI many global players will enter in this sector, this may displace the small players.

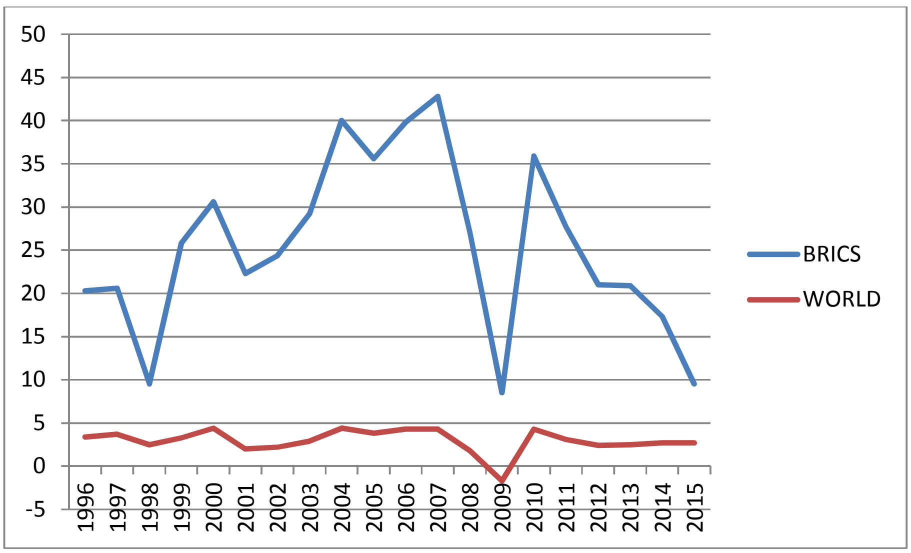
According to the latest statistics BRICS represent 43% of the world population with a combined nominal GDP of US$ 16.039 trillion (approximately 37% of the gross world product) and nearly US$ 4 trillion in foreign reserves [14]

Figure 1: Foreign Direct Investment inflows in BRICS and World US$(billion)



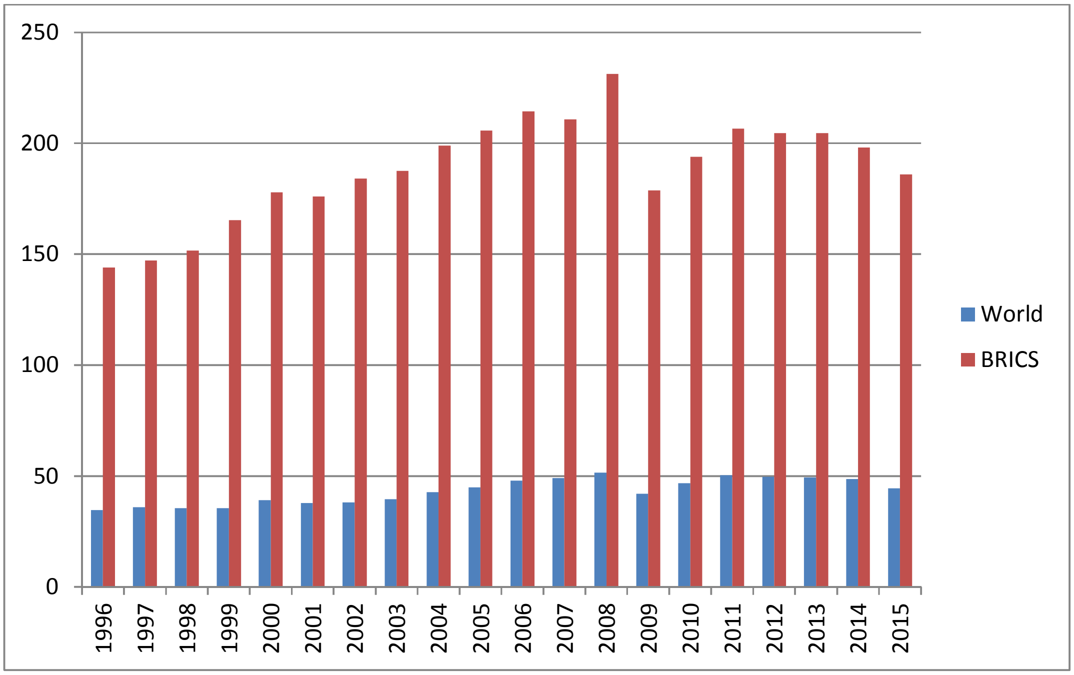
Source: World Bank (2015) [15]

Figure 2: GDP growth (Annual %) BRICS and World



Source: World Bank (2015) [15]

Figure 3: Merchandise trade (% GDP) BRICS and World



Source: World Bank (2015)[15]

The above figures display the stupendous growth of BRICS as an economy compare to that of world. BRICS received 20% of the world's FDI in 2011 which rose to 24 % in 2014, almost a quarter of the world (Figure 1). The recession of 2008-2010 didn't affect that much as compared to the world. During the study period (Figure 2) GDP growth (%) of the world was negative -1.7 % while the BRICS were floating at 8.5% in 2009 and it boosted up to 35.9% in 2010 after the formation of BRICS in 2009 and the world was at 4.3 % During the entire period of the study , the highest Merchandise trade volumes were created in BRICS . In 2009, the trade of the BRICS was 178.7% which rose to 194% in 2010 while the Merchandise trade of the world was 42.1% and went up to 46.8%. Though the trade of BRICS declined from 198.1 % to 186% in the year 2014 and 2015, comparatively the trade of the world also went down from 48.6% to 44.5%

In order to determine the FDI impact on the BRICS economies and the World, efficacy of the relationship between FDI and selected economic indicators was tested using a correlation analysis. The significance of the results was checked using t-test.

Table 1

Result of Correlation and its significance between FDI and GDP of BRICS

		FDIBRICS	GDPBRICS
FDIBRICS	Pearson Correlation	1	-.068
	Sig. (2-tailed)		.776
	N	20	20
GDPBRICS	Pearson Correlation	-.068	1
	Sig. (2-tailed)	.776	
	N	20	20

Table 2

Result of Correlation and its significance between FDI and Merchandise Trade(Percentage of GDP) of BRICS

		FDIBRICS	TRADEBRICS
FDIBRICS	Pearson Correlation	1	.634**
	Sig. (2-tailed)		.003
	N	20	20
TRADEBRICS	Pearson Correlation	.634**	1
	Sig. (2-tailed)	.003	
	N	20	20

**. Correlation is significant at the 0.01 level (2-tailed).

Table 3

Result of Correlation and its significance between FDI and GDP of World

		FDIWORLD	GDPWORLD
FDIWORLD	Pearson Correlation	1	.086
	Sig. (2-tailed)		.720
	N	20	20
GDPWORLD	Pearson Correlation	.086	1
	Sig. (2-tailed)	.720	
	N	20	20

Table 4

Result of Correlation and its significance between FDI and Merchandise Trade (Percentage of GDP) of World

		FDIWORLD	TRADEWORLD
FDIWORLD	Pearson Correlation	1	.907**
	Sig. (2-tailed)		.000
	N	20	20
TRADEWORLD	Pearson Correlation	.907**	1
	Sig. (2-tailed)	.000	
	N	20	20

**. Correlation is significant at the 0.01 level (2-tailed).

The calculated correlation coefficients in (Table 1) show that the relationship between FDI and GDP of BRICS appears non- existence and also in (Table 3) the significance between FDI and GDP of World is almost negligible. However, the results in (Table 2 and 4) show that GDP of BRICS and World significantly correlate with FDI, the coefficient of Correlation in the BRICS economies is more than 0.6, and in case of World it is more than 0.9 which witness a strong positive correlation between the mentioned variables. The relationship of these indicators is direct (the coefficients are positive, so the FDI and GDP move in the same direction, i.e., increase or decrease together) and strong.

Research Methodology

The research is descriptive in nature and secondary data have been collected from official site of World Bank, FICCI, and various scholarly published journals. The statistical data collected have been presented using bar & line graph, using basic statistical methods. SPSS software has been used for analysing and interpreting the results. The data of BRICS and world based on FDI, GDP and Merchandise trade have been collected and comparatively interpreted.

Conclusion and Discussions

There has been significant growth in BRICS as an economy. It received a quarter of the world's Foreign Direct Investment i.e. 24% in 2014. The trade in BRICS were high as compared to that of the World. Though to know the impact of FDI on various economic indicators (GDP and TRADE), the correlation was passed which proved that, there is no significant relationship between FDI and GDP for both the economies i.e. almost negligible, while strong and positive relationship was found between FDI and Merchandise Trade of BRICS and of the World. To conclude, FDI have can have both positive as well have negative effects, but positive spillovers are more than the negative; that is why the countries leave no stone unturned to attract FDI.

Study was limited to relationship between FDI, Merchandise Trade and GDP of BRICS and World. Similar studies can be conducted for individual countries with respect to FDI, Merchandise Trade and GDP. However, the further study can be explored to understand the linkage of other economic indicators to FDI. The current study will be useful for developing the model relating to the impact of FDI on various economic indicators.

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